Dominion Foundries and Steel, Limited Annual Report '79

Highlights

	1979	1978	Increase (Decrease)
Production of ingots and castings – net tons*	**4,060**	3,588	13.2%
Shipments of flat rolled products and steel castings – net tons*	**2,958**	2,763	7.1%
Sales*	**$1,435,058**	$1,120,383	28.1%
Net income*	**$ 136,945**	$ 94,922	44.3%
Net income available for common shareholders*†	**$ 125,191**	$ 85,437	46.5%
Net income – per common share†	**$ 7.88**	$ 5.42	45.4%
Net income – percent of sales†	**8.7%**	7.6%	
Net income after adding back interest on long term debt (after taxes) – percent of average capital employed	**11.6%**	9.4%	
Net income – percent of average common shareholders' equity†	**20.2%**	15.8%	
Dividends declared – total*	**$ 45,131**	$ 35,605	26.7%
Dividends declared – per common share	**$ 2.10**	$ 1.65¾	26.7%
– per $100 preferred share	**$ 4.75**	$ 4.75	
– per $25 preferred share	**$ 1.808**	$ 1.427	26.7%
Capital expenditures – manufacturing*	**$ 61,257**	$ 128,205	(52.2%)
Capital expenditures – mines and quarries*	**$ 10,732**	$ 5,920	81.3%
Depreciation*	**$ 64,876**	$ 53,370	21.6%
Average number of employees	**13,700**	12,300	11.4%
Number of holders of common shares	**14,141**	14,674	(3.6%)

*in thousands
†after preferred dividends

The annual and a special general meeting of shareholders will be held at the offices of the Company in Hamilton, Ontario, on Friday, April 25, 1980, at 12:00 o'clock noon.

On pourra se procurer le texte français de ce rapport annuel en s'adressant au secrétariat de la Compagnie, case postale 460, Hamilton, Ontario.

Stock market information

	Class A Convertible Common Shares				
1979	High	Low	Close	Shares Traded	Dividends Declared
First Quarter	$34	$30⅝	$32¾	599,396	$0.45
Second Quarter	$35⅝	$32½	$35¼	755,981	$0.55
Third Quarter	$36¼	$31½	$34½	554,959	$0.55
Fourth Quarter	$35½	$30½	$35	383,011	$0.55
Year	$36¼	$30½	$35	2,293,347	$2.10
1978	$32	$22	$31	2,282,906	$1.65¾

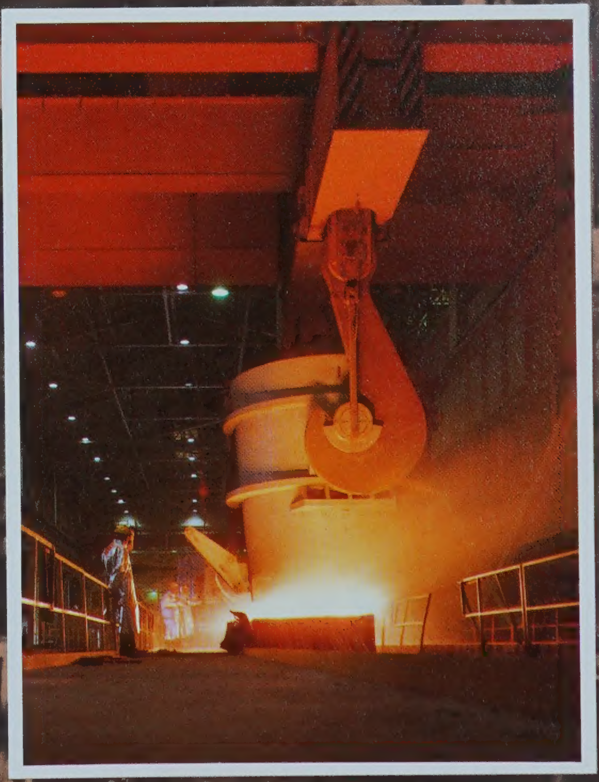
Valuation Day (December 22, 1971) share prices: Common $25.00; 4¾% Preferred $74.00.

Cover:
A nine ton coil of galvanized steel – one of Dofasco's many flat rolled products.

Dofasco

The year 1979 marked the 25th anniversary of basic oxygen steelmaking on this continent. Dofasco introduced the process to North America when steel was poured from the Company's first basic oxygen furnace in October 1954.

Today the oxygen process accounts for most of the world's steel production, making high-quality steel in less time and with less energy than the older open-hearth method. The development and application of this technology has helped Dofasco become Canada's second largest fully-integrated steel producer.



Contents

directors

George H. Blumenauer
Chairman and President, Otis Elevator Company Limited Hamilton

R. Ross Craig
Executive Vice President – Commercial

Roger G. Doe, Q.C.
Partner, Campbell, Godfrey & Lewtas Toronto

Robert C. Dowsett
President, Crown Life Insurance Company, Toronto

Dr. John R. Evans
Director – Population, Health and Nutrition Department, World Bank (International Bank for Reconstruction and Development) Washington, D.C., U.S.A.

William C. Hassel
Vice President – Operations

Howard J. Lang
Chairman, Canron, Inc. Montreal

John D. Leitch
President, Upper Lakes Shipping Ltd. Toronto

Frank H. Logan
Chairman, Dominion Securities Limited, Toronto

W. Harold Rea
Vice President, The Mutual Life Assurance Company of Canada Toronto

John G. Sheppard
Executive Vice President – Financial

Frank H. Sherman
President and Chief Executive Officer

officers

Frank H. Sherman
President and Chief Executive Officer

R. Ross Craig
Executive Vice President – Commercial

John G. Sheppard
Executive Vice President – Financial

David A. Lindsey
Vice President – Raw Materials, Purchases and Traffic

William C. Hassel
Vice President – Operations

F. John McMulkin
Vice President – Research

William J. Stewart
Vice President – Product Quality and Development

David H. Samson
Vice President – Engineering

Paul J. Phoenix
Vice President – Planning

Donald A. R. Pepper
Vice President – Personnel

William D. Simon
Vice President – Sales

Thomas Van Zuiden
Vice President – Finance

William L. Wallace
Vice President and Works Manager

H. Graham Wilson
Vice President and Secretary

Bill P. Solski
Treasurer

Robert J. Swenor
Assistant Secretary

L. Allen Root
Assistant Treasurer

Robert E. Wodehouse
Assistant Comptroller

Hendrik A. Keur
Assistant Comptroller

Robert W. Grunow
Assistant Comptroller

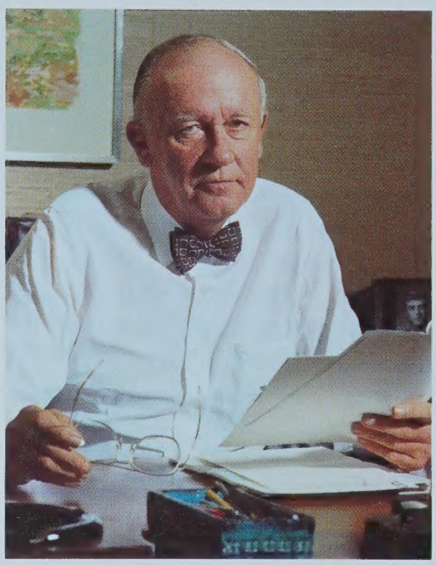
President's message

1979 was an excellent year for Dofasco. Records were set in sales, production and net income. Consolidated sales were $1.4 billion, up 28% over 1978. Ingot production exceeded the 4-million ton mark for the first time. Net income per common share after preferred dividends increased by 45% from $5.42 to $7.88.

In September 1979 plans were approved to construct a second hot strip mill. It will have an initial rolling capacity of 1.2 million tons per year and can be modified to increase its capacity to the 4.5 million ton level. The cost, when completed in 1983, is expected to be approximately $450 million.

The new mill is a major part of the Company's long-term expansion program to sustain our market position in the future. Financing this large capital program will require investment in excess of anticipated corporate profits. Over the past five years Dofasco's profits have totalled $422.6 million while we have invested $617.3 million in new plant and equipment. It is vital that we maintain our profitability at levels which will enable the Company to generate the cash required to help finance new projects, attract new capital, service our debt, and pay dividends which are competitive in capital markets.

Our expansion, which requires long lead times and large capital commitments, is based on expected cash flows calculated under present tax laws. It is essential to the financing of our capital projects that these tax rules remain unchanged both in substance and application.



Outlook

The outlook for Dofasco and its subsidiaries is good. Operations should be at or near capacity throughout the coming year.

We expect a slight decline in domestic demand for steel in 1980, mainly due to reduced requirements from the automotive industry. However, this should be offset by stronger domestic demand from other industries and Canadian steel replacing higher-priced imports.

Looking further ahead, we are optimistic about the long-term demand for steel and a general strengthening of the Canadian economy.

Government

A significant factor influencing our country's future will be our ability as Canadians to address the major problems facing the nation. I strongly believe in the need for cooperation between regions, and the understanding of cultural and economic differences in order to build a healthier Canada under a strong federal system. The next few years will in all likelihood be difficult, but in my view, Canada has a great future.

Management changes

Two members of Dofasco's senior management retired as of December 31, 1979. Jack Plumpton joined Dofasco in 1964 and at his retirement was Vice President and Comptroller of Dofasco. He will continue as Vice Chairman of Prudential Steel Ltd., Calgary. After twenty years at Dofasco, Alan Laing retired as Assistant Comptroller and Assistant to the Executive Vice President – Financial. Over the years, these men have made significant contributions to the Company's progress.

In January 1980, Thomas Van Zuiden was appointed Vice President – Finance. Mr. Van Zuiden has been with Dofasco for twenty-eight years and had previously held the position of Vice President – Treasurer. In February, H. Graham Wilson was appointed Vice President and Secretary. Mr. Wilson came to Dofasco in 1962 and was Corporate Secretary prior to his most recent appointment. Bill Solski was appointed Treasurer. Mr. Solski joined Dofasco in 1970 and had been Assistant Treasurer prior to this appointment.

On behalf of the Board of Directors, I thank our customers and shareholders for their support and our employees for their excellent performance during the year.

FHSherman

F. H. Sherman
President

Hamilton, Ontario
March 14, 1980

Commercial

Strong demand for steel products enabled Dofasco to operate at full capacity throughout the year. Consolidated sales in 1979 were $1,435 million. Record sales resulted from increases in steel shipments and higher selling prices. Price increases were necessary to offset rising costs and to help restore eroded profit margins. Our subsidiaries also contributed significantly to revenue growth.

Flat rolled steel shipments grew 6.6% to 2,919,112 tons. Castings shipments were almost 50% higher at 38,646 tons, due largely to improved demand for railway freight cars and locomotives.

Canadian markets for flat rolled steel improved mainly because domestic customers increased exports and their products displaced some imports. Higher levels of business investment in plant and equipment also contributed to greater demand. Orders from automotive customers declined during the last six months of the year. However, the shortfall was made up by increased demand from some non-automotive industries.

To provide more steel for our Canadian customers, we increased domestic shipments by 8.7% and reduced exports by nearly 15%. Exports represented 7.2% of total 1979 shipments, down from 9% in 1978. Sales of ingots and slabs to other Canadian mills were increased to take advantage of our excess steelmaking capacity.

Total Canadian mill capacity fell short of the domestic demand for steel. This limited supply required that we sell to our customers through allocations based on previous buying patterns. Canadian imports of flat rolled steel products grew over 30% from the preceding year despite their higher prices.

Outlook

Dofasco's outlook for 1980 appears good. Canadian industries using domestic steel are quite cost competitive. Unless the value of the Canadian dollar moves up appreciably from current levels, we expect our customers' ability to displace imports and increase exports will continue.

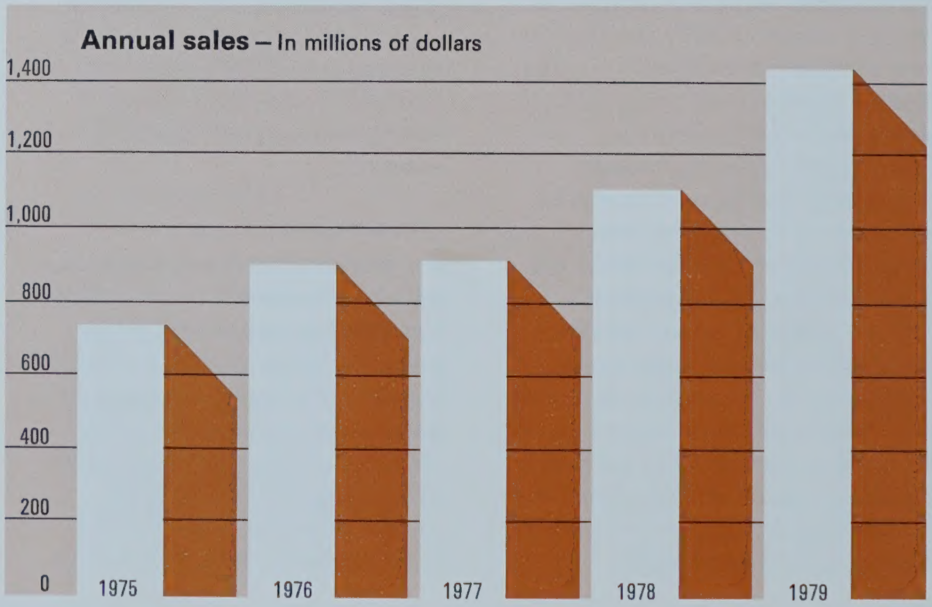
However, we do have some concerns about the short term economic situation in Canada. The high cost of gasoline and potential supply problems are causing a shift away from full-size cars and light duty trucks, resulting in a heavy inventory of these larger vehicles. It may be some time before North American production can match the current demand for small cars.

Spending on non-residential construction, machinery and equipment levelled off in the early part of 1980 because of economic uncertainty and high interest rates. Residential construction is expected to continue to be slow in 1980 for the same reasons.

Dofasco's customer allocations for hot rolled and cold rolled products have been discontinued for the second quarter. We expect strong demand for galvanized steel and allocations may be necessary into the third quarter.

For 1980 we anticipate a 2% decline in total domestic demand for flat rolled steel, mainly due to decreased automotive requirements. However, the Canadian steel industry is in a good position to displace a portion of the higher priced imported steel. We expect domestic shipments to be equal to or slightly higher than 1979 levels as new capacity at Canadian mills comes on stream.

We believe that near or full capacity operations at Dofasco will be achieved in 1980.



Financial

Record sales and shipments resulted in net income reaching a new high of $136.9 million. Earnings per common share after preferred dividends were $7.88. Sales and profits increased in the steelmaking portion of Dofasco's business and the subsidiaries' contribution was also significantly higher.

Funds available from operations were $237.9 million, an increase of $57.7 million over 1978. From a total cash flow of $240.4 million, Dofasco invested $61.3 million in manufacturing facilities and $10.7 million in mining and quarrying operations.

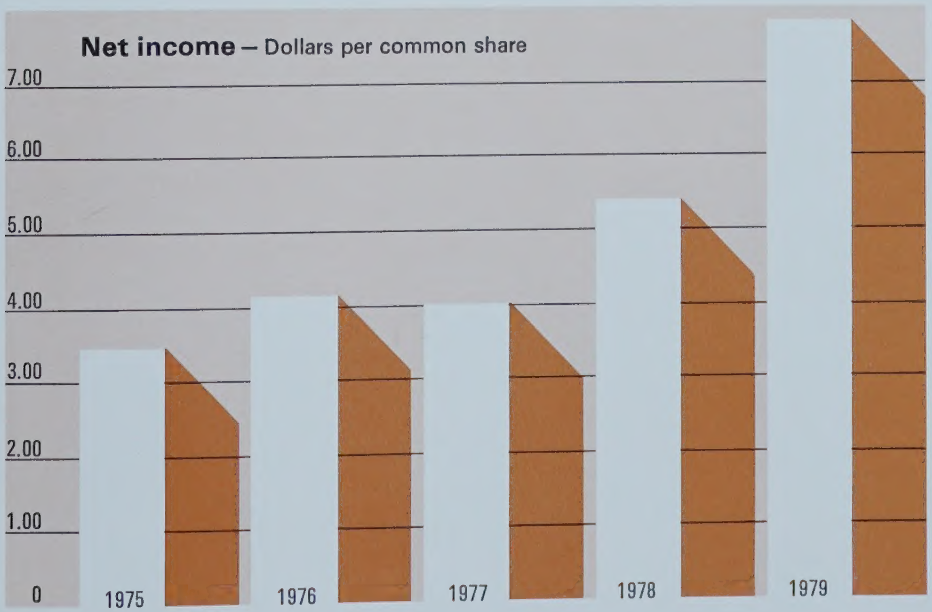
Another $104.6 million went into working capital, including $54.7 million in increased cash and investments in short term securities. These funds will be used to help finance our expansion over the next few years.

In 1979, $22.4 million was applied to the repayment of long term debt and $41.0 million was paid in cash dividends to shareholders. Dividends declared during the year were $2.10 per Class A Common Share, up 27% from 1978. In 1979 holders of Class B Common Shares began receiving quarterly stock dividends equivalent in value to the cash dividends paid to Class A shareholders.

Funds required for inventories and accounts receivable grew by $109.5 million in 1979. This change reflects increased business and the effect of inflation.

As of December 31, 1979, we estimate that $623 million will be required to complete the authorized capital projects of the Company and its subsidiaries.

Profit sharing has been a part of Dofasco's steelmaking operation in Hamilton since 1938. Each year 11% of pre-tax steelmaking profits is allocated to Dofasco employees with three or more years' service. Their share of 1979 profits totalled $20.5 million, an average of $2,562 for each participating employee.



Operations

Production

No. 2 Basic Oxygen Steelmaking Plant was in operation for its first full year and we were able to increase ingot production substantially. During 1979 Dofasco made 4.06 million tons of ingots and castings. This record quantity was 13% more than last year's output of 3.59 million tons. Production records were also set at nearly all rolling and finishing operations. These results indicate the strong efforts put forth by all our employees throughout the year.

We now have greater capacity in ironmaking, steelmaking and finishing than in hot rolling. In order to use this capacity, some ingots were hot rolled at other steel mills and then finished at Dofasco. This, together with purchases of hot rolled steel from other producers, allowed our cold mills to operate at higher levels.

Additional ingots also went into inventory in 1979 to help compensate for reduced production during the reline of our No. 4 Blast Furnace which began in February 1980. This inventory, together with the purchase of ingots and semi-finished steel, should avoid any disruption to shipments during the two-month reline.

Major expenditures on existing plant planned for 1980 include the rebuilding of our No. 1 Coke Plant to extend its useful life by at least ten years and the installation of newly designed charging equipment on No. 4 Blast Furnace to increase productivity and fuel efficiency.

New Facilities

Construction of No. 4 Galvanizing Line is on schedule and completion is expected in mid-1981. Its capacity will be approximately 240,000 tons

per year which will bring total galvanizing capability to 850,000 tons annually. This project will cost about $49 million.

Construction has commenced on our second hot strip mill which is scheduled to be put into production during 1983. This mill, which will include sixteen soaking pits, a high-powered reversing roughing mill and a 5-stand tandem finishing mill, will have an initial capacity of 1.2 million ingot tons per year. Modifications, such as the installation of additional finishing stands and soaking pits, can be made to ultimately increase the mill's capacity to 4.5 million ingot tons.

Like our existing hot strip mill, the new facility will roll ingots directly to coils. It can also be adapted to roll slabs from a continuous casting operation. No. 2 Steelmaking Plant has also been designed to permit continuous casting, if in the future this method of production should become appropriate for some portion of our production.

The new hot strip mill will, in the near term, increase Dofasco's rolling capacity to a level matching the existing capacity of our iron and steelmaking facilities.

The Company has set a raw steel production target of 4.5 million tons by the mid-1980's. To produce at this level, some modifications to iron-making facilities will be required.

Subsidiaries

National Steel Car

National Steel Car Corporation, Limited, is one of Canada's largest builders of railway freight cars. Dofasco's steel plant supplies some of the sheet and plate steel used in the car bodies and our foundry makes steel castings for the undercarriage assemblies.

National had an excellent year with record sales of $151.9 million and increased profits. Although it concentrates on serving Canadian markets first, exports to the United States contributed to excellent operating levels.

National employed over 1,500 people at year end. In October 1979, two-year collective labour agreements were signed. The outlook for 1980 is good with high levels of operations expected throughout the year.

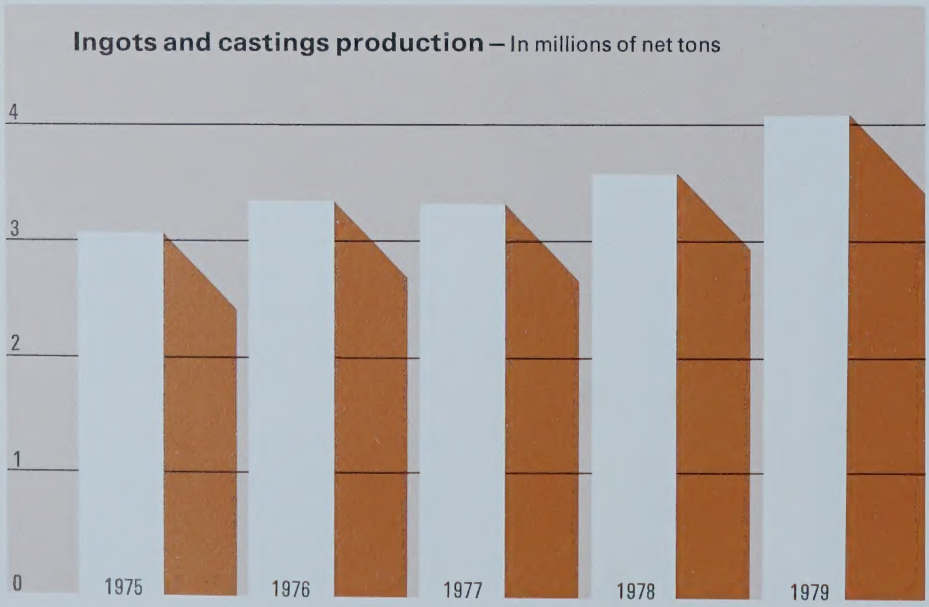
Prudential Steel

Prudential Steel Ltd. of Calgary produces small-diameter pipe and a complete line of oil country tubular goods. These products are used in oil and gas transmission, exploration, and drilling. Prudential also makes hollow structural steel sections used in construction and many other applications. Cardinal Tube Coatings Ltd., a Prudential subsidiary, covers pipe with corrosion resistant coatings for underground service.

Prudential employs over 500 people. Record sales and profits were achieved in 1979 and the results for this coming year are expected to be even better because of increased activity in oil and gas exploration in western Canada. A study to determine the feasibility of expanded mill facilities is under way.

BeachviLime

BeachviLime Limited produces burnt lime as well as crushed and pulverized limestone at its quarry in Ingersoll, Ontario and employs about 125 people. Its products are used in



National Steel Car Corporation, a Dofasco subsidiary, is one of Canada's largest manufacturers of railway freight cars. Norm McKay, Manager of Special Product Sales at National, inspects a 100 ton grain hopper car before delivery.


WAR
14169
CAST STEEL WHEELS CH 3
SPRG 6 OC D5
6 IC D5
4 IC D6A
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iron and steelmaking, pollution control and in the manufacture of glass and agricultural products. Guelph DoLime, a subsidiary, produces dolomitic limestone for Dofasco's steel plant and other customers.

Although sales were at a record level, profits were down slightly due to problems with equipment during the first half of the year. BeachviLime is doubling its facilities for making pulverized limestone and is adding a preheater to its No. 1 Rotary Kiln which will save energy and increase productivity.

Modifications to Guelph DoLime's shaft kilns in 1979 increased production capacity by 80%. BeachviLime and Guelph DoLime are forecasting a good year for 1980 with capacity operations expected.

Baycoat

Dofasco owns 50% of Baycoat Limited, a coil coating company which applies a variety of high technology paint finishes to steel strip. The use of precoated steels has been growing rapidly. To meet expanding markets, a $5 million fourth coating line was installed during 1979. Baycoat's capacity has doubled since 1977.

Baycoat employed almost 300 people and coated more than 200,000 tons of steel in 1979. Although automotive orders declined in the fourth quarter, the reduction was made up by increased demand from other industries and record sales and net income were achieved. The outlook for 1980 is good.

Resources

Raw Materials

Most of the 5 million tons of iron ore used by Dofasco in 1979 was obtained from sources wholly or partly owned by the Company. The Adams Mine and Wabush Mines produced for Dofasco 1.22 million and 979,000 gross tons of pellets respectively. We received 931,000 tons from the Sherman Mine. Our share of production and some purchases from the Eveleth Mine totalled 670,000 tons, up 90,000 from 1978. Approximately 1.2 million tons of iron ore pellets were bought from other sources during the year.

Purchase contracts arranged in 1979 with several suppliers are expected to provide up to 1.0 million tons of pellets annually through to 1984. Our mining interests should contribute approximately 4 million tons of the 4.7 million tons we plan to use in 1980. We will use less iron ore this year than last year because No. 4 Blast Furnace is being shut down for a two month reline.

Based on current operating levels, the proven iron ore reserves will support production for 19 years at the Adams Mine, 24 years at the Sherman Mine, 60 years at Wabush and 58 years at Eveleth. Dofasco is continuing to participate in studies to examine the feasibility of developing certain other iron ore properties in north-western Ontario at some time in the future.

The Company used 2 million tons of coking coal during 1979 – 220,000 tons purchased from Canadian sources, 275,000 tons from our 9% ownership interest in Itmann Coal of West Virginia, a further 200,000 tons purchased from Itmann and the balance from annual purchases. We expect to bring in about 2 million tons of coal during 1980.

Energy

In 1979 energy purchases accounted for approximately 20% of Dofasco's total steelmaking costs. Coke made from coal represents about 65% of annual purchased fuel requirements; oil makes up another 25% while electricity and natural gas together provide the remaining 10%.

Dofasco has a very energy-efficient steelmaking plant. A major contributor to this efficiency is the recovery and use of by-product gas generated in our coke and ironmaking operations. Of the total amount of all energy forms consumed annually by the Company, approximately 50% comes from recycled gas. When the gas is recovered at our coke ovens and blast furnaces it is supplemented with an oil and natural gas component and distributed for use throughout the steel plant.

Another significant contributor to Dofasco's energy efficiency is the direct rolling of ingots to coils. This process eliminates the reheating of steel slabs before hot rolling. We have traditionally used the direct rolling method and have been a leader in the application of this technology.

From 1974 through 1978, conservation efforts resulted in a 3% reduction in energy consumed per ton of steel produced. As our energy efficiency is at a high level, it is difficult with current technology to achieve large decreases in total

High quality iron ore pellets spill out of a rotary kiln at the Sherman Mine at Temagami, Ontario. Dofasco used about 5 million tons of iron ore during 1979.

consumption. Dofasco has set a target of a further 6% reduction in energy consumption per ton of steel produced by the year 1985.

Research and development

Research and development personnel are members of several Company task forces evaluating new technology and equipment for the current expansion program. Emphasis is also being directed towards assisting plant operating departments to reach their productivity, cost reduction, and environmental control goals. For example, an automated system was developed to monitor and control coal blends in the coke plant to improve coke quality.

The real benefits of research are obtained when new technology is used in production. Supplementing our own research with carefully selected technology from other sources has helped to improve the efficiency and profitability of operations.

Much of our product development design work with customers has been aimed at developing low-cost, lightweight structural products such as beams and joists made from cold-formed flat-rolled steels. We also extended our line of formable and weldable high strength steels to assist the automotive industry in making lightweight fuel-efficient cars.

Our transportation products development team continued its work in the design, assembly and field servicing of railway trucks. Much design work was done on self-steering railway freight car trucks to provide improved economy and less noise and wear.

Environmental control

Since Dofasco's first major pollution control programs were established in the late 1960's, the Company has made significant progress. We have decreased the rate of emissions into the air from our steel plant by over 80%, from 6.1 to 1.1 pounds of particulates for each ton of steel produced. Reductions in discharge rates for various water-borne pollutants have also ranged from 80% to over 90%.

Capital costs for environmental control since 1970 have been about $110 million – almost 14¢ of each plant investment dollar and about 17% of total net income for this period. Over the next three years we expect to spend an additional $70 million for pollution abatement equipment.

Total annual cost for environmental control has increased from approximately $4 million in 1971 to more than $23 million in 1979. These figures include the annualized cost of financing these projects as well as their current operating expenses.

No. 2 Basic Oxygen Steelmaking Plant which started up in 1978 includes air pollution control systems which capture 99% of particulate emissions. No. 2 Hot Strip Mill will include the best practical control equipment available which will cost an estimated $30 million.

The Government of Ontario has set regulations and guidelines for air and water quality. Almost all of our existing production equipment has been upgraded to bring emissions in line with government standards. Dofasco remains committed to doing its share to improve Ontario's environment.

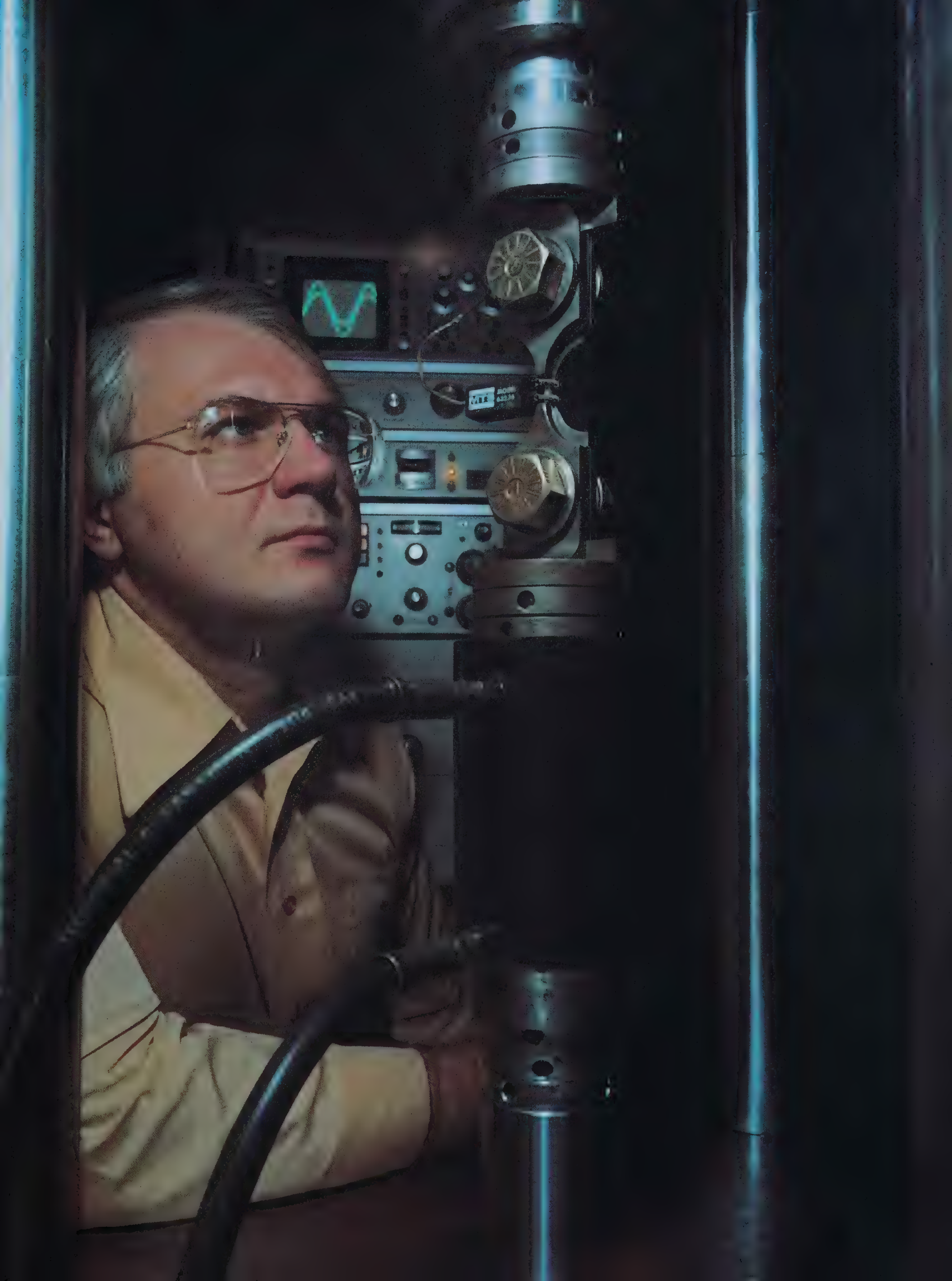
Occupational health and safety

Dofasco's medical department and occupational environment division provide comprehensive health and safety programs. These programs help to protect employees through regular medical examinations and systematic monitoring of the work environment.

Facilities were expanded in 1979 and the medical staff now numbers 45, including four full-time physicians. Our occupational environment staff of 55 includes specialists in safety, hygiene and fire prevention.

A number of medical research projects are in progress, including a Dofasco/McMaster University study investigating the possible presence of potentially carcinogenic substances in our foundry. The medical staff together with our engineering

Dofasco's research specialists develop steel products to meet customer requirements. Roman Pietrowski performs a fatigue test on a new grade of steel for automotive applications.



and operations people are also conducting tests to determine if certain injuries may be related to equipment design. To date studies have dealt with the design and layout of crane cabs. Such work may lead to machines and controls designed to reduce the potential for injury.

Our occupational environment staff have developed a Material Safety Data Manual which deals with the hazards of potentially toxic substances used in the plant. This manual has been widely distributed and is also used as a training resource.

All our employees and supervisors have individual responsibility for safety. Supervisors have regular talks with employees covering safety practices within their area. This personal contact helps to reinforce safe work practices.

In January of this year about 8,000 of our steelmaking employees were surveyed regarding Dofasco's occupational health and safety programs. Ninety-six percent said that the established methods were effective in resolving workplace health and safety concerns. Ninety-eight percent indicated that they supported the continuation of such programs as they are now structured.

Employee and community relations

In September, the Company started a retirement planning program for employees over 60 years of age. One hundred employees took part in the three-week course to hear Dofasco staff specialists and consultants from outside the Company address retirement topics such as health, finances, and special interests.

During 1979 we also made a number of improvements to Dofasco's retirement benefit programs:

– the Supplementary Retirement Income Plan was amended to increase the minimum benefits received by retiring employees;
– benefits paid to widows of retirees were upgraded; and
– a greater number of long-term employees were made eligible for special ten week vacations.

This past year ninety-five of our supervisory people completed a pilot refresher course. The five-part program covers such topics as employees' changing attitudes toward work; accounting, purchasing, and engineering procedures; techniques of counselling, appraising and discipline; and time management.

Activities at Dofasco's Recreation Centre continued to expand. During the past year more than forty organized programs were available to employees and their families. Two new facilities are being added in 1980 – an 18-hole miniature golf course and a nature trail with several picnic groves.

Community

Dofasco encourages its people to be active in community life. Many of our employees contribute to worthwhile local organizations. Some volunteer their business skills to social agencies while others work directly with people needing personal assistance, such as the handicapped.

Our 50 acre recreation park provides a broad range of activities for the more than 11,000 Dofasco employees and their families.

"Keepers" tap molten iron from a blast furnace.

Almost all of our people make voluntary contributions to the Employees' Charity Chest which in 1979 donated close to half a million dollars to charitable organizations. Among the organizations which benefited were : The United Way, the Canadian Cancer Society, the Canadian Heart Fund, the Hamilton and District Society for Crippled Children and the Council for Drug Abuse.

Dofasco's social commitment is also reflected through the Company's corporate donations to nonprofit organizations. This year support was given to a number of Canadian universities and colleges as well as many athletic, health and welfare programs. In addition to supporting a great many worthwhile local organizations, such as the Art Gallery of Hamilton, the Royal Botanical Gardens and the Hamilton Philharmonic Orchestra, the Company also contributed to other cultural institutions such as the Stratford Shakespearean Festival, the Shaw Festival, the Canadian Opera Company and the National Ballet.

In 1979 Dofasco received an award for community leadership in support of the arts. This award was sponsored jointly by the Financial Post, the Canadian Conference of the Arts and the Council for Business and the Arts.

Planning

Dofasco is involved in a major expansion program to increase capacity. A significant step towards this goal was the start-up of a second basic oxygen steelmaking plant in 1978. In 1979 we announced plans to build another hot strip mill. An expansion program of this size requires not only large amounts of capital but also a great deal of planning and organizing before any construction decision is made.

At the centre of Dofasco's planning process is the long-range planning group – made up of representatives from financial, engineering, marketing and planning areas. Using long-range forecasts for steel demand by product, the group develops expansion options to meet anticipated market growth. Alternatives are examined using various assumptions to test the impact of changes in market conditions and the economic environment. After the options have been assessed, the best long-range plan is selected.

Work on the current plan began in the mid-1970's, outlining expansion through to the 1990's. While this provides the overall direction, updating and modification to accommodate short-term market changes is done on a regular basis.

Detailed shorter term plans are also developed to increase production in an orderly manner. At this stage, our operations, engineering, plant layout and research groups work together to develop specific facility designs. Key personnel visit modern steel plants throughout the world so that the most advanced technology can be incorporated into new facilities to best meet Dofasco's specific needs.

The planning process is lengthy in the steel industry and the costs are high. The variables affecting management decision-making are multiplying, particularly during these times of rapid economic and social change. However, we are confident in the long-term growth of markets for steel products in Canada and we intend to share in that growth.

Long before any new facility is built many hours of planning are required in designing the best system to meet the Company's future needs.

Auditors' report

To the Shareholders of
Dominion Foundries and Steel, Limited:

We have examined the consolidated statement of financial position of Dominion Foundries and Steel, Limited as at December 31, 1979 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON GORDON
Chartered Accountants

Hamilton, Canada,
January 31, 1980.

Consolidated statement of income and retained earnings

for year ended December 31, 1979 (with comparative figures for 1978)

		$000's		
		1979		1978
Income				
Sales (note 11)		**$1,435,058**		$1,120,383
Cost of sales (excluding the following items)	**$1,117,388**		$892,125	
Depreciation and amortization	**64,876**		53,370	
Employees' profit sharing	**20,479**		13,189	
Interest on long term debt	**32,672**	**1,235,415**	35,195	993,879
Income from operations		**199,643**		126,504
Income from investments		**19,602**		12,418
Income before income taxes		**219,245**		138,922
Income taxes		**82,300**		44,000
Net income for year		**$ 136,945**		$ 94,922
Retained earnings				
Balance at beginning of year		**$ 476,729**		$ 452,258
Add:				
Net income for year	**$ 136,945**		$ 94,922	
Discount on $100 preferred shares purchased for cancellation	**211**	**137,156**	154	95,076
		613,885		547,334
Deduct:				
Dividends declared –				
Preferred shares	**11,754**		9,485	
Common shares (including stock dividends with a cash equivalent, 1979 – $4,083,000; 1978 – $710,000)	**33,377**		26,120	
Capitalization of retained earnings	—	**45,131**	35,000	70,605
Balance at end of year		**$ 568,754**		$ 476,729
Earnings and dividends per common share				
Net income for year (as above)		**$ 136,945**		$ 94,922
Deduct preferred dividends – $100 preferred		**905**		927
– $ 25 preferred		**10,849**		8,558
		11,754		9,485
Net income available for common shareholders		**$ 125,191**		$ 85,437
Net income per common share (after preferred dividends)		**$ 7.88**		$ 5.42
Dividends declared per common share (including stock dividends having a substantially equivalent value)		**$ 2.10**		$ 1.65¾

See accompanying notes to consolidated financial statements

Consolidated statement of financial position

December 31, 1979 (with comparative figures at December 31, 1978)

	$000's	
	1979	1978
Current assets:		
Cash and short term investments at cost and accrued interest	**$ 182,045**	$ 127,319
Accounts receivable	**174,527**	159,930
Inventories (note 2)	**422,393**	327,451
	778,965	614,700
Current liabilities:		
Bank indebtedness	**9,869**	20,613
Accounts payable and accrued charges	**173,545**	150,494
Amounts payable for employees' profit sharing	**19,479**	13,189
Income and other taxes payable	**47,350**	8,159
Dividends payable	**10,683**	8,936
Current requirements on long term debt (note 5)	**2,053**	1,959
	262,979	203,350
Working capital	**515,986**	411,350
Fixed assets, less accumulated depreciation and amortization (note 3)	**881,969**	874,856
Investments	**5,277**	5,995
Unamortized debenture discount and issue expense	**3,534**	4,009
Capital employed	**1,406,766**	1,296,210
Deduct:		
Long term debt (note 5)	**316,993**	339,363
Income tax allocations relating to future years	**253,100**	217,500
	570,093	556,863
Shareholders' equity	**$ 836,673**	$ 739,347
Represented by:		
Preferred shares (note 6)	**$ 168,797**	$ 169,372
Common shares (note 7)	**97,964**	92,536
Stock dividend distributable	**1,158**	710
Retained earnings	**568,754**	476,729
	$ 836,673	$ 739,347

On behalf of the Board:

F. H. Sherman, Director

J. D. Leitch, Director

See accompanying notes to consolidated financial statements

Consolidated statement of changes in financial position

for year ended December 31, 1979 (with comparative figures for 1978)

	$000's 1979	1978
Source of funds:		
Operations –		
Net income for year	$ 136,945	$ 94,922
Add items not requiring an outlay of funds –		
Depreciation and amortization	64,876	53,370
Income tax allocations relating to future years	35,600	31,600
Other changes	475	306
Funds from operations	237,896	180,198
Common shares issued for cash	1,793	744
Decrease in investments (net)	718	627
	240,407	181,569
Application of funds:		
New facilities and equipment (after deducting investment tax credits, 1979 – $4,741,000; 1978 – $6,793,000) –		
Manufacturing	61,257	128,205
Mines and quarries	10,732	5,920
Reduction in long term debt –		
Debentures and mortgage	22,370	7,237
Revolving bank credit and other	—	10,400
Preferred shares purchased for cancellation	364	285
Dividends to shareholders –		
Preferred shares	11,754	9,485
Common shares	29,294	25,410
	135,771	186,942
INCREASE (DECREASE) IN WORKING CAPITAL	104,636	(5,373)
WORKING CAPITAL AT BEGINNING OF YEAR	411,350	416,723
WORKING CAPITAL AT END OF YEAR	$ 515,986	$ 411,350

See accompanying notes to consolidated financial statements

Notes to consolidated financial statements

December 31, 1979

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles consistently applied. They are based on information available to January 31, 1980, and are within the framework of the accounting policies summarized below:

1. Accounting policies

a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries (National Steel Car Corporation, Limited, Prudential Steel Ltd. and BeachviLime Limited), as well as the Company's proportionate share of the assets, liabilities and results of operations of its joint venture activities (Sherman Mine, Wabush Mines, Eveleth Expansion Company and Baycoat Limited).

All significant inter-company transactions are eliminated.

b) Translation of foreign currencies:

Foreign currency balances are translated into Canadian dollars at year end rates of exchange for working capital items, except for inventories. Long term assets and liabilities and inventories are translated using historical rates. Actual exchange rates in effect during the year are used for all revenue and expense items except depreciation and amortization which are translated at historical rates. Any resulting translation gains or losses are reflected in income.

c) Inventories:

Inventories of materials, supplies, work-in-process and finished products are valued at the lower of average cost and net realizable value. Physical inventory quantities are determined at least annually by actual examination, or for certain raw materials, by aerial survey.

d) Fixed assets and related investment tax credits:

Fixed assets are recorded at their historical cost which includes the cost of installation. Investment tax credits based on fixed asset expenditures are recorded as a reduction of the cost of fixed assets.

Production stripping at mines and quarries is expensed as incurred. However, the initial costs to bring a mineral property into production are capitalized as part of the cost of the property.

Depreciation is computed generally on the straight-line method applied to the cost of the assets at rates based on their estimated useful life, as follows:

Buildings	2½ to 5%
Equipment	6 to 7½%
Automotive	20 to 25%
Mine and quarry facilities	4½ to 5%

e) Repairs and maintenance costs:

Repairs and maintenance costs are expensed as incurred except for the cost of relining blast furnaces which is accrued over the period between relines.

f) Income taxes:

The provision for income taxes is reduced by statutory deductions associated with iron production and processing and with the 3% inventory allowance. Mining taxes are calculated on the value of mine production and are included with income tax expense.

Income tax regulations permit the Company to deduct certain costs (principally depreciation) at a more rapid rate than is reflected in its accounts. The tax effect of these timing differences is recognized in the accounts as "income tax allocations relating to future years".

2. Inventories

	1979	1978
Materials and supplies	$ 207,802,000	$ 175,588,000
Work-in-process and finished products	214,591,000	151,863,000
	$ 422,393,000	$ 327,451,000

3. Fixed assets

	1979	1978
Manufacturing facilities and equipment	$1,232,013,000	$1,173,061,000
Mine and quarry facilities	234,897,000	226,706,000
	1,466,910,000	1,399,767,000
Less accumulated depreciation and amortization	584,941,000	524,911,000
	$ 881,969,000	$ 874,856,000

4. Joint ventures

The Company receives a pro rata share of iron ore production from three joint ventures in return for paying its proportionate share of costs. The expenses incurred by the joint ventures are included in the cost of the materials produced and ultimately are reflected as cost of sales when finished steel products are sold.

The fourth joint venture is Baycoat Limited, a coil coating operation, in which the Company has a 50% interest. The Company reflects its share of revenues and expenses of this joint venture in the statement of income.

The Company's share of the total assets and liabilities of these joint ventures (included in the statement of financial position categories to which they relate) is as follows:

	1979	1978
Assets	$ 134,676,000	$ 134,777,000
Liabilities	51,014,000	55,954,000
Net Investment	$ 83,662,000	$ 78,823,000

5. Long term debt

	1979	1978
Sinking fund debentures –		
6½% due May 15, 1987	$ 21,633,000	$ 22,992,000
9% due February 1, 1991	37,932,000	40,798,000
10% due June 1, 1994	41,223,000	45,347,000
10⅞% due May 15, 1995	52,202,000	60,000,000
10⅜% due March 15, 1996	55,455,000	60,000,000
9⅜% due February 15, 1997	75,000,000	75,000,000
Eveleth Expansion Company first mortgage bonds (proportionate share) –		
9½% due 1995 (U.S. $28,000,000)	28,412,000	29,993,000
10% due 1995 (U.S. $6,912,000)	6,814,000	7,192,000
Baycoat Limited first mortgage (proportionate share) –		
12% due July 1, 1983	375,000	—
Outstanding at December 31	319,046,000	341,322,000
Less current requirements	2,053,000	1,959,000
	$316,993,000	$339,363,000

If the Eveleth Expansion Company first mortgage bonds were translated into Canadian dollars at the year end rate of exchange, the total long term debt outstanding at December 31, 1979 would increase by $5,154,000. This is not necessarily indicative of the amount which will be repaid when the obligations are retired.

Requirements for repayment within the next five years are as follows:

1980 – $2,053,000; 1981 – $2,262,000; 1982 – $2,925,000;
1983 – $13,992,000; 1984 – $14,440,000.

The Company has revolving bank credit available until December 31, 1989 in the amount of $100,000,000 in Canadian funds plus an additional $50,000,000 in either Canadian or U.S. funds. Interest is at the rate of ⅜ of 1% above the prime commercial rate. During 1979 none of the revolving bank credit was used.

6. Preferred shares

Authorized – preferred shares issuable in series:

$100 preferred shares – 500,000
$ 25 preferred shares – 12,000,000

Issued less redeemed:	Shares	Dollars
$100 preferred shares		
4¾% cumulative redeemable preferred shares, Series A	187,966	$ 18,797,000
$25 retractable preferred shares Series 1, 2 and 3, having a variable dividend rate of ½ of the average prime bank rate plus 1¼%	6,000,000	150,000,000
		$168,797,000

$100 Preferred shares:

The Company is in compliance with the terms of the mandatory purchase fund designed to retire the outstanding preferred shares by 2% per year. To December 31, 1979, an aggregate of 62,034 shares have been purchased for cancellation (including 5,749 during 1979 for $364,000). In compliance with Section 62 of the Canada Corporations Act, retained earnings of $6,203,000 are designated as capital surplus.

$25 Preferred shares:

The Company must offer to purchase the Series 1, 2 and 3 shares at par plus accrued dividends on their respective initial retraction dates of July 15, 1984, 1985 and 1986 and thereafter on the fifth and tenth anniversary of such dates. Prior to July 15, 1980 the shares may be purchased for cancellation at a price not exceeding $26 per share plus accrued dividends. After that date they may be either redeemed at a reducing premium to July 14, 1983 (and at par thereafter), or purchased for cancellation at not more than current redemption prices. During 1979, no shares were purchased for cancellation.

7. Common shares

Authorized – 25,000,000 Class A convertible common shares without nominal or par value
– 25,000,000 Class B convertible common shares without nominal or par value

Issued – 13,832,543 Class A common shares
– 2,125,839 Class B common shares
15,958,382 Total common shares

The Class A shares and Class B shares are convertible on a share-for-share basis into each other and rank equally in all respects. Dividends on the Class A shares are paid in cash. Dividends on the Class B shares are currently being paid in the form of additional Class B shares having a value substantially equal to the cash dividends paid on the Class A shares. During the year an aggregate of 110,798 Class B shares were issued in payment of such dividends.

The employee stock option plan, which expires in 1984, authorizes the directors to grant options to certain employees of the Company to purchase up to a total of 480,000 of the unissued Class A shares. The number of shares covered by each option varies with changes in the optionees' remuneration and therefore cannot be determined until the last year of its term. During the year 67,991 Class A shares were issued under the plan for $1,793,000. At December 31, 1979, the following options to purchase a total of 184,914 common shares were outstanding.

	Held by	
Option Price per share	Directors and Officers	Other Employees
$28⅛	41,040	45,112
$25½	44,856	53,906

Notes (continued)

No options are granted to directors who are not full-time employees. The disclosure of fully diluted earnings per share, after giving effect to the possible exercise of outstanding stock options, is omitted as the effect is immaterial.

8. Profit sharing on steelmaking operations

The Company allocates 11% of steelmaking profits before income taxes to the Employees' Savings and Profit Sharing Fund and the Employees' Deferred Profit Sharing Plan.

9. Retirement plans

The Company has funded retirement plans covering substantially all of the employees. Pension costs charged against income during the year, based on amounts estimated by independent actuaries, include amounts for current and past service. The estimated unfunded past service cost of $32,000,000 will be amortized over periods not exceeding 15 years.

10. Commitments

The estimated amount required to complete authorized capital projects, including an allowance for the effect of continuing inflation, is $623,000,000 at December 31, 1979.

11. Sales

Consolidated sales include those of National Steel Car Corporation amounting to $151,902,000 in 1979 ($68,747,000 – 1978).

12. Statutory information

Remuneration of directors and officers for the year was as follows:

Fees of twelve directors	$ 111,000
Remuneration of fifteen officers (including four directors)	1,871,000
Total remuneration of directors and officers	$1,982,000

The above includes directors' fees paid by National Steel Car Corporation, Limited of $6,250, Prudential Steel Ltd. of $4,250, and Beachvi-Lime Limited of $2,000.

Ten year summary of production and financial data

Statement of income data

Sales*
Cost of sales (excluding the following items)*
  Depreciation and amortization*
  Employees' profit sharing*
  Interest on long term debt*
Income from investments*
Income before income taxes*
Income taxes*
Net income for year*
Net income available for common shareholders*†

Financial position data

Working capital*
Fixed assets* – land, building and equipment, at cost
  – accumulated depreciation
Total other assets*
Capital employed*
Long term debt*
Income tax allocations relating to future years*
Total shareholders' equity*

Statistical data

Production of ingots and castings – net tons*
Shipments of flat rolled products and steel castings – net tons*
Net income per common share†
Net income – percent of sales†
Net income after adding back interest on long term debt (after taxes) – percent of average capital employed
Net income – percent of average common shareholders' equity†
Net worth per common share
Dividends declared – per common share
  – per $100 preferred share
  – per $25 preferred share
Income reinvested in the business*
Capital expenditures – manufacturing*
Capital expenditures – mines and quarries*
Total dividends declared* – preferred
  – common
Number of holders of common shares
Percentage of common shares held in Canada
Average number of employees

*in thousands
†after preferred dividends

1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
$1,435,058	$1,120,383	$ 919,036	$ 904,958	$ 738,083	$681,636	$519,558	$443,775	$380,723	$331,658
$1,117,388	$ 892,125	$ 752,151	$ 739,144	$ 601,301	$524,741	$382,813	$333,585	$295,011	$247,988
$ 64,876	$ 53,370	$ 47,063	$ 42,108	$ 38,064	$ 35,119	$ 35,155	$ 33,077	$ 28,764	$ 26,246
$ 20,479	$ 13,189	$ 8,529	$ 8,652	$ 6,436	$ 11,107	$ 10,033	$ 6,774	$ 5,429	$ 5,623
$ 32,672	$ 35,195	$ 34,434	$ 23,736	$ 15,767	$ 9,678	$ 7,580	$ 9,053	$ 8,245	$ 3,977
$ 19,602	$ 12,418	$ 12,759	$ 4,981	$ 3,958	$ 6,811	$ 1,264	$ 537	$ 1,145	$ 1,578
$ 219,245	$ 138,922	$ 89,618	$ 96,299	$ 80,473	$107,802	$ 85,241	$ 61,823	$ 44,419	$ 49,402
$ 82,300	$ 44,000	$ 21,100	$ 29,600	$ 25,000	$ 37,400	$ 32,700	$ 25,700	$ 16,400	$ 16,300
$ 136,945	$ 94,922	$ 68,518	$ 66,699	$ 55,473	$ 70,402	$ 52,541	$ 36,123	$ 28,019	$ 33,102
$ 125,191	$ 85,437	$ 63,103	$ 65,728	$ 54,493	$ 69,415	$ 51,530	$ 35,083	$ 26,958	$ 32,020
$ 515,986	$ 411,350	$ 416,723	$ 252,894	$ 218,571	$163,490	$107,628	$103,559	$ 95,496	$ 78,751
$1,466,910	$1,399,767	$1,269,245	$1,112,987	$1,001,298	$867,192	$780,701	$736,905	$702,283	$618,838
$ 584,941	$ 524,911	$ 475,144	$ 431,896	$ 392,045	$357,014	$330,635	$296,625	$263,805	$236,215
$ 8,811	$ 10,004	$ 10,937	$ 12,185	$ 11,342	$ 11,259	$ 10,939	$ 11,100	$ 8,134	$ 7,501
$1,406,766	$1,296,210	$1,221,761	$ 946,170	$ 839,166	$684,927	$568,633	$554,939	$542,108	$468,875
$ 316,993	$ 339,363	$ 357,000	$ 285,593	$ 238,791	$135,211	$ 80,719	$112,963	$130,705	$ 80,530
$ 253,100	$ 217,500	$ 185,900	$ 169,600	$ 151,900	$133,000	$120,700	$113,100	$104,200	$ 94,750
$ 836,673	$ 739,347	$ 678,861	$ 490,977	$ 448,475	$416,716	$367,214	$328,876	$307,203	$293,595
4,060	3,588	3,333	3,335	3,053	3,060	3,036	2,773	2,468	2,322
2,958	2,763	2,596	2,652	2,348	2,455	2,362	2,175	1,811	1,787
$ 7.88	$ 5.42	$ 4.01	$ 4.17	$ 3.46	$ 4.41	$ 3.29	$ 2.25	$ 1.74	$ 2.07
8.7%	7.6%	6.9%	7.3%	7.4%	10.2%	9.9%	7.9%	7.1%	9.7%
11.6%	9.4%	8.7%	9.3%	8.7%	12.2%	10.2%	7.5%	6.6%	8.0%
20.2%	15.8%	12.9%	14.6%	13.2%	18.7%	15.8%	11.8%	9.7%	12.2%
$ 41.85	$ 36.12	$ 32.32	$ 29.89	$ 27.17	$ 25.15	$ 21.99	$ 19.69	$ 18.33	$ 17.48
$ 2.10	$ 1.65¾	$ 1.55	$ 1.46¾	$ 1.44	$ 1.26	$ .97½	$ .90	$ .90	$ .87½
$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75
$ 1.808	$ 1.427	$ .744	—	—	—	—	—	—	—
$ 91,814	$ 59,317	$ 38,116	$ 42,615	$ 31,817	$ 49,577	$ 36,264	$ 21,057	$ 12,980	$ 18,470
$ 61,257	$ 128,205	$ 152,168	$ 77,411	$ 100,722	$ 85,133	$ 37,879	$ 31,799	$ 52,029	$ 69,873
$ 10,732	$ 5,920	$ 7,906	$ 36,534	$ 36,419	$ 10,114	$ 3,360	$ 3,080	$ 32,590	$ 3,122
$ 11,754	$ 9,485	$ 5,415	$ 971	$ 980	$ 987	$ 1,011	$ 1,040	$ 1,061	$ 1,082
$ 33,377	$ 26,120	$ 24,414	$ 23,113	$ 22,676	$ 19,838	$ 15,266	$ 14,026	$ 13,978	$ 13,550
14,141	14,674	15,196	15,298	15,932	16,110	16,272	16,629	17,958	19,511
97.2%	97.1%	97.1%	97.1%	97.4%	96.9%	96.4%	96.2%	95.7%	95.0%
13,700	12,300	11,300	11,500	11,700	11,500	10,600	9,700	9,300	8,600

Subsidiaries	Percentage Ownership
National Steel Car Corporation, Limited, Hamilton, Ontario* A manufacturer of railway rolling stock, industrial and mining specialty rail cars and car parts. T. F. Rahilly, Jr. – President	100.0%
Prudential Steel Ltd., Calgary, Alberta* A manufacturer of electric resistance weld pipe in the 2" to 10" range; tubing and casing for the oil and gas industry; hollow structural steel for agricultural and industrial uses. J. S. Badyk – President	100.0%
BeachviLime Limited, Beachville, Ontario* A quarry and processing operation supplying lime and limestone products. D. A. Lindsey – President	100.0%

Iron Ore Mining and Pelletizing	
Adams Mine, Kirkland Lake, Ontario* Cliffs of Canada, Ltd. – Manager	100.0%
Sherman Mine, Temagami, Ontario* Cliffs of Canada, Ltd. – Manager	90.0%
Wabush Mines*, comprising: Scully Mine, Wabush, Newfoundland Pelletizing plant, Pointe Noire, Quebec Pickands Mather & Co. – Manager	16.4%
Eveleth Expansion Company, Minnesota* Oglebay Norton Company – Manager	16.0%

Other Investments	
Baycoat Limited, Hamilton, Ontario*	50.0%
Itmann Coal Company, West Virginia†	9.0%
Arnaud Railway Company, Quebec†	16.4%
Wabush Lake Railway Company, Limited, Newfoundland†	16.4%
Knoll Lake Minerals Limited, Newfoundland†	9.5%
Northern Land Company Limited, Newfoundland†	8.2%
Twin Falls Power Corporation, Limited, Newfoundland†	2.8%

Transfer Agents and Registrars

National Trust Company, Limited –
Toronto, Montreal, Vancouver, Winnipeg, Calgary

Canada Permanent Trust Company – Halifax

The Bank of Nova Scotia Trust Company of New York – New York

*Ownership interest consolidated in Financial Statements

†Included under "Investments" in Financial Statements


Our product is steel...
our strength is people

DOFASCO

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Quarterly Report to Shareholders

For the Period Ended
June 30, 1979

DOMINION FOUNDRIES AND STEEL, LIMITED
HAMILTON, ONTARIO

Quarterly Report

To the Shareholders of Dominion Foundries and Steel, Limited:

Summarized below are Dofasco's unaudited consolidated results for the second quarter and for the first six months of 1979, with comparative figures for the same periods last year (dollars in thousands):

	Three Months Ended June 30		*Six Months Ended June 30*	
	1979	*1978*	*1979*	*1978*
Production of ingots and castings (net tons)	1,057,000	813,300	2,021,400	1,641,400
Shipments of flat rolled products and steel castings (net tons)	740,600	699,700	1,515,900	1,389,200
Sales	$372,600	$265,900	$729,200	$514,100
Depreciation	16,200	11,900	31,800	23,800
Income before income taxes	57,200	31,200	106,800	56,100
Income taxes	22,500	9,400	41,100	15,000
Net income	34,700	21,800	65,700	41,100
Preferred dividends	2,900	2,300	5,700	4,500
Net income applicable to common shares	31,800	19,500	60,000	36,600
Net income per common share	$2.00	$1.24	$3.78	$2.32

Operations

Second quarter production and shipments continued strong and were substantially above last year. Domestic demand principally from the automotive, agricultural, railway and pipe and tube industries for all flat rolled products and steel castings exceeded our ability to supply and product allocations continued to be necessary.

All of our subsidiaries operated at or near capacity and made a good contribution to the increased earnings for this period.

The effective income tax rate increased substantially in the first half of 1979. This is primarily the result of the reduced impact of resource allowances on the earnings for the period.

Depreciation expense for the first six months increased significantly over the corresponding period of 1978 because major new facilities came into service in the second half of last year.

Capital Expenditures

Capital expenditures for the first six months of 1979 amounted to $27,700,000. The major project underway is a fourth galvanizing line which is expected to be completed in 1981.

Outlook

Demand remains strong and still exceeds our ability to supply. Customer allocations for flat rolled products are expected to continue at least for the next few months. The major uncertainty is in the automotive sector. Due to the impact of the energy problems, North American car sales have declined in the second quarter resulting in some cancellations of orders. This reduction has been offset by orders from other business segments. Low Canadian steel prices and favourable exchange rates have been contributing factors in increasing our customers' sales.

Capacity operations should continue through the third quarter but fourth quarter demand is currently less predictable. However, the general outlook for most of our products remains quite good and we are optimistic about the results for the balance of the year.

Statement of Changes in Financial Position

	Six Months Ended June 30	
	1979	*1978*
	(dollars in thousands)	
SOURCE OF FUNDS:		
Operations (consisting of net income, depreciation and income tax allocations relating to future years)	$119,500	$ 77,900
Common shares issued under the option plan	1,200	—
Increases in long term debt	—	2,100
	$120,700	$ 80,000
USE OF FUNDS:		
New facilities	$ 27,700	$ 80,100
Reduction in long term debt	9,000	4,900
Dividends	19,800	17,100
Other changes	300	—
	$ 56,800	$102,100
INCREASE (DECREASE) IN WORKING CAPITAL	$ 63,900	$ (22,100)
WORKING CAPITAL AT JUNE 30	$475,300	$394,600

July 30, 1979

F. H. SHERMAN, *President*

Quarterly Report to Shareholders

For the Period Ended

June 30, 1980

File

DOMINION FOUNDRIES AND STEEL, LIMITED

HAMILTON, ONTARIO

Quarterly Report

TO the Shareholders of Dominion Foundries and Steel, Limited:

Summarized below are Dofasco's unaudited consolidated results for the second quarter and for the first six months of 1980, with comparative figures for the same periods last year (dollars in thousands):

	Three Months Ended June 30		*Six Months Ended June 30*	
	1980	*1979*	*1980*	*1979*
Production of ingots and castings (net tons).	960,600	1,057,000	1,829,000	2,021,400
Shipments of flat rolled products and steel castings (net tons).	698,500	740,600	1,496,400	1,515,900
Sales.	$385,400	$ 372,600	$ 790,400	$ 729,200
Depreciation.	16,500	16,200	32,700	31,800
Income before income taxes.	53,200	57,200	115,600	106,800
Income taxes.	21,400	22,500	44,700	41,100
Net income.	31,800	34,700	70,900	65,700
Preferred dividends.	3,600	2,900	7,000	5,700
Net income applicable to common shares . . .	28,200	31,800	63,900	60,000
Net income per common share.	$1.75	$2.00	$3.98	$3.78

Operations

Production of ingots and castings were at near normal levels during most of the second quarter as No. 4 Blast Furnace was returned to service following a reline. With the exception of tin mill products and electrical steels, orders for flat rolled products fell below normal, necessitating the shut down of operations for the week beginning June 29.

Shipments declined during the quarter resulting in lower income from steelmaking. However, National Steel Car and Prudential Steel sustained their strong performance.

Capital Expenditures

Capital spending during the first half of 1980 totalled nearly $78,000,000. The construction of the #4 Galvanizing Line and the second Hot Rolling Mill accounted for the major portion of these expenditures. These projects form part of the long term program to increase production to meet the future growth in steel demand.

Outlook

Customer ordering for the third quarter for most flat rolled products remains weak. This situation may have some effect on operating levels for certain areas until the market strengthens. However, orders for tin mill products and electrical steels are being maintained at near capacity levels. The outlook for the Foundry, National Steel Car and Prudential Steel is good for at least the balance of 1980.

As a result of customer inventory adjustments and generally poor economic conditions, the outlook for our major products is weaker than it has been for some years. While we expect some improvement later in the year supported by the lowering of interest rates and greater availability and selection of North American-produced small vehicles, we expect the recovery to be slow. Export opportunities are being pursued with some success but world conditions are generally very competitive.

Statement of Changes in Financial Position

	Six Months Ended June 30	
	1980	*1979*
	(dollars in thousands)	
SOURCE OF FUNDS:		
Operations	$118,100	$119,500
Common shares issued under the option plan	1,600	1,200
Other changes – net	800	—
	$120,500	$120,700
USE OF FUNDS:		
New facilities	$ 77,500	$ 27,700
Reduction in long term debt	2,600	9,000
Dividends	24,700	19,800
Other changes – net	—	300
	$104,800	$ 56,800
INCREASE (DECREASE) IN WORKING CAPITAL	$ 15,700	$ 63,900
WORKING CAPITAL AT JUNE 30	$531,700	$475,300

F. H. SHERMAN, *President*

July 31, 1980